

WSDOT Market Analysis

March 2008

This market analysis is based on a review of published information including the following sources: American Road and Transportation Builders Association (ARTBA); Asphalt Weekly Monitor (AWM); Associated General Contractors (AGC); Energy Information Administration (EIA), Engineering News Record (ENR); and The Vancouver Sun.

- **Asphalt** prices will increase following price increases for crude oil.

The pressure on asphalt paving costs continues to build as world crude oil prices hit the \$100 per barrel mark. ENR's 20-city average price for liquid asphalt paving oil has climbed 0.7% this month, following a 0.5% increase last January. The two price bumps helped to keep prices 2% above last year's record level. This month's 2% annual price hike follows year-to-year March gains of 27% in 2007, 18% in 2006 and 13% in 2005. Prices for rapid set asphalt emulsion are up 9.5% above March 2007's level." ENR, "Construction Economics," March 10, 2008.

In Washington State, there were reports of price increases for April. Selling prices in coastal areas this week were assessed higher, mostly between \$385-425/ST for PG 64-22. Posted prices varied from as low as \$385/ST to as much as \$450/ST for April supply, depending upon supplier and location. In eastern Washington, selling prices were also assessed higher, to between \$385-415/ST. One supplier's PG 64-22 posted price rose from \$425/ST to \$450/ST this week in Spokane. AWM, "Volume 20 – Number 14," Week of March 31 – April 4.

- **Concrete** prices fell slightly in December and held steady throughout the first quarter. Concrete prices are expected to change very little as the industry copes with the weak housing market.

"The depressed housing market appears to finally be having an impact on concrete prices. Ready-mix concrete producers rolled back prices 1.2% in January as they battled falling demand from the single-family housing market, which through the first nine months of 2007 was down 18% from the previous year ." ENR, "Construction Economics," January 14, 2008.

"Cement and concrete prices increases are leveling off after almost three years of steady price increases. ENR's 20-city price for cement and concrete showed little movement at the beginning of February, as Portland cement prices held steady for the fourth consecutive month. The recent chill kept annual price escalation for portland cement to just 3.8%, down from an 8% annual rate of increase for February 2007 and a 6% increase during

February 2006. Concrete prices are up 4% for the second consecutive year.” ENR, “Construction Economics,” February 4, 2008.

- **Fuel** price increases may cause another round of construction cost escalation, especially for road work. Crude oil remains above \$100 per barrel and gasoline and diesel are projected to remain elevated throughout 2008. Political tensions or unexpected refinery outages could push prices higher.

“For the sixth week in a row, average retail diesel prices increased, and for the fifth consecutive week, the U.S. average price for retail diesel reached yet another all-time high. On the West Coast, the average price increased by 3.8 cents to 405.6 cents per gallon, 125.3 cents above the price a year ago.” EIA, “This Week in Petroleum,” March 26, 2008

“Since December 2003, the PPI for diesel fuel soared 186 percent, the most of any major construction input. From January 2007 to January 2008, the diesel PPI jumped 55 percent, following a mild 2.3 percent increase in 2006. In the first two months of 2008, retail diesel prices have been nearly 40 percent higher than in the same months of 2007.” AGC, “Construction Inflation Alert,” March 2008.

Lumber and plywood prices, which have rapidly declined due to the housing market, reached a point where analysts say they cannot go any lower. Prices will remain low, or may increase slightly if mills continue shutdowns.

“Lumber prices have been falling for awhile and most indicators point to prices being close, if not at, production costs. Any lower, and the mills would be cutting their own throats,” says Mothersole. He predicts that lumber prices will bottom out in 2008 after three years of declines.” ENR, “Fourth Quarter Cost Report, Inflation Bows to Sub-Prime Crisis” December 17, 2007 – Tim Grogan.

“Canfor is cutting production by 600 million board feet -- the equivalent of shutting down one of the company's modern super-sawmills -- through a combination of indefinite layoffs at two mills and work-sharing programs at eight others. This latest curtailment brings Canfor's production down by 25 per cent over last year. Before Tuesday's announcement Canfor had already closed one sawmill and two panel mills, partially closed one sawmill and reduced shifts at four mills.” The Vancouver Sun, “Canfor cuts production, lays off workers,” April 9, 2008 – Gordon Hamilton.

- **Steel** prices will increase due to tighter global supply and increases in scrap prices.

“Steel mills announced this week that they were raising prices by \$147 per net ton for rebar, merchant bar and structural steel. One supplier quoted increases for plate and sheet products, structural beams and channel of \$70-\$110/ton effective May 1, and tubing and

pipng went up \$100/ton on March 28. Mills typically announce prices for the start of the next month, including a surcharge based on American Metal Market's shredded auto scrap index. The May increase nearly doubles the surcharge to \$555 from December's level of \$280." AGC, "DataDIGest," April 7-11, 2008.

Prices for grade-60 reinforcing bar inched up 0.3% this month, following February's 2.1% hike. That helped to fix rebar prices 6.2% above 2007. Price hikes for structural steel products also firmed this month. The average price for channel, wide-flange and I-beams rose 0.5% in March, following a 1.5% increase the previous month. Structural steel prices are up 4%, over a year ago, compared to annual increases of 6% in 2007, 9% in 2006, 16% in 2005 and 13% in March 2004, according to ENR's 20-city average price." ENR, "Construction Economics," March 31, 2008.

- **Highway Materials & Construction** price increases slowed in 2007. Throughout 2008, prices for these materials should increase more rapidly. Crude oil prices and global demand for construction materials will cause most of the increase.

"The cost of highway and street construction materials was up 11.3 percent in February 2008 compared to the same month last year. During the same time period, inflation, as measured by the consumer price index, was 4 percent. Over the last five years, between 2003 and 2008, the price of highway and street construction materials rose 52 percent." ARTBA, "Highway Construction Producer Prices," March 2008.

The outlook for highway construction appears to be worsening. Of 176 respondents to a March 24 survey by AGC of highway contractors, chapter executives and some state departments of transportation, 77% said there has been "a reduction in the number of contracts that are being bid by your state DOT over the past year." Half said their "state had problems in providing the match to receive Federal funds" and nearly half said "the reduction in the number of contracts being bid resulted in you laying off workers."AGC, "The DataDIGest," March 24 – April 1, 2008.

- **Labor** prices are rising in the 5% annual range after recent negotiations in the Puget Sound area. Puget Sound area wage increases are slightly higher than nationwide averages.

"The Construction Labor Research Council, which tracks union wage settlements, reported in December 2007 that first-year increases for craft workers averaged 4.4 percent for 2007, nearly identical to the 4.5 percent average for first-year increases in 2006. That is consistent with the still-rising demand for many types of workers in 2007." AGC, "Construction Inflation Alert," March 2008.